

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6547

BILL NUMBER: SB 286

NOTE PREPARED: Feb 4, 2004

BILL AMENDED:

SUBJECT: Research Expense Tax Credit.

FIRST AUTHOR: Sen. Ford

FIRST SPONSOR:

BILL STATUS: As Passed Senate

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: This bill extends the Research Expense Income Tax Credit indefinitely.

Effective Date: July 1, 2004.

Explanation of State Expenditures:

Explanation of State Revenues: This credit is currently set to expire on December 31, 2013. This bill would eliminate the expiration date and make this credit permanent. It is difficult to estimate the exact impact of continuing this tax credit indefinitely since it is dependent on both the amount of research expenses individual taxpayers make during the year and their total tax liability. This permanent extension would affect revenue collections beginning in FY 2014 and years after.

Background: P.L. 242-2002 (ss) increased this credit from 5% to 10% of qualified expenses for tax years beginning January 1, 2003, and eliminated the apportionment factor used to calculate the credit. P.L. 224-2003 extended this tax credit until December 31, 2013. The total estimated cost of this credit at the higher rate is expected to range from approximately \$50 M to \$75 M annually. Over the past six years when the credit was set at a 5% rate, the Research Expense Credit has ranged from a low of \$9.2 M in FY 1996 to a high of \$24.2 M in FY 1999. In FY 2000 \$19.4 M were claimed, and in FY 2001 \$21.9 M were claimed at the 5% rate. No data is available on the amount of credits which might be claimed under the changes made by P.L. 242-2002(ss).

With additional incentives created for research and development activity based in the state of Indiana, the revenue loss from this credit could increase by an indeterminable amount. The credit provides \$100,000 for each \$1 M in new research expenses. Increased expenditures on research activities could also generate

additional Adjusted Gross Income and Sales Tax revenue if these expenses are used to hire additional employees or purchase related equipment.

The Research Expense Tax Credit affects revenue collections deposited in the General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Department of State Revenue.

Fiscal Analyst: Diane Powers, 317-232-9853.